Bush on housing: Congress should do more

The president calls on lawmakers to 'act quickly' on his proposals to ease the mortgage crisis, but not all of them have an equal chance of passage.

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NEW YORK (CNNMoney.com) -- Criticized for not doing enough to stave off foreclosures, the White House seems prepped to put on a full-court press in dealing with the housing crisis.

President Bush last weekend said he will push Congress this year "to act quickly" on proposals he supports.

Some of them are designed to have an immediate impact, such as efforts to make the refinancing of subprime loans easier and more affordable, and to make it easier for all homebuyers to get financing. Another proposal focuses on putting a stop to abusive lending.

Efforts implemented so far include a Treasury-coordinated rate-freeze plan for some subprime borrowers, and tax relief on breaks that homeowners get from lenders in foreclosure.

It's not likely all of the proposals that Bush would support will gain passage in 2008. Here's a look at the prospects for four such initiatives:

FHA reform

One initiative with a very good chance of being sent to President Bush's desk for his signature in the first half of the year is reform of the Federal Housing Administration loan program, said Jaret Seiberg, an analyst at the policy research firm Stanford Group.

The FHA program is intended for home buyers and home owners with weak credit. Borrowers with FHA-insured loans - which they get from private lenders as they would any other mortgage - pay a small premium to the FHA every month. The FHA, in turn, uses those

premiums to cover the lender in the event of foreclosure and requires lenders to pursue viable ways to help borrowers avoid foreclosure.

FHA reform would liberalize the loan program guidelines by lowering down payment requirements, increasing the cap on loans eligible to be FHA-insured and lowering origination fees, among other things.

Both the House and Senate have passed their own versions of FHA reform, and Seiberg expects lawmakers will come to agreement on a consensus bill in the first few months of the year.

Lower the cost of subprime refinancing with bonds

The Bush Administration also wants Congress to temporarily allow state and local governments to issue tax-exempt municipal bonds to subsidize the cost of mortgage refinancing for subprime borrowers trying to get out of unaffordable loans. The governments use the revenue derived from the sale of the bonds to help subsidize the cost to consumers of certain types of mortgages they get from private lenders.

Under current law, state and local housing agencies are allowed to issue tax-free bonds only to help subsidize the cost of mortgages for first-time home buyers or home buyers purchasing property in distressed areas.

In addition, Treasury officials have told lawmakers that they'd like to see the dollar cap on the amount of tax-free munis that can be issued by states and localities raised by $15 billion over three years, "The Bond Buyer" reported on Thursday.

"Republicans tend to like state-based solutions while Democrats see this as a way to help borrowers. As it appeals to both sides, Congress is likely this spring to approve the Administration's proposal," Seiberg said in an e-mail to CNNMoney.com.

John C. Murphy, executive director of the National Association of Local Housing Finance Agencies, doesn't think the muni-tax proposal is a slam dunk, however.

Murphy said there are concerns about cost and whether it would be effective. In addition, it could affect other subsidy programs, such as those for student loans.

But there does appear to be interest on the Senate Finance Committee, and that interest may even expand on the Administration's proposal.

Sen. John Kerry (D - Mass.), for instance, introduced a bill in December calling for a $15 billion increase in the volume cap for mortgage bonds in 2008 alone and an allowance that those bonds may be used to finance subprime refis as well as mortgages for first-time home homebuyers.

Regulate Fannie and Freddie more strictly and increase loan limits

A number of lawmakers have called for an increase in the size of mortgages that Fannie Mae and Freddie Mac can purchase. Fannie and Freddie guarantee the purchase and trading of so-called "conforming" mortgages, which are those valued at $417,000 or less. Any loans above that amount are considered "jumbo" loans.

An increase in the conforming loan limit would make it easier and less costly for borrowers in high-cost areas to get loans because Fannie and Freddie would guarantee their purchase by investors.

The Administration has said it would support a temporary increase in the loan limit, but there's a catch. It will only do so if lawmakers pass legislation that would subject Fannie and Freddie to more stringent regulation.

Ever since accounting scandals at Fannie and Freddie came to light in 2003, lawmakers have been debating how to reform the two agencies, which are considered government-sponsored enterprises (GSEs). That is, while they remain publicly traded companies and are not funded by the government, there is an implicit understanding that should they falter, the government would feel pressure to help out.

But GSE reform has run into countless roadblocks, and 2008 may be no different. There is still strong disagreement between Democrats and Republicans over just how the oversight rules should be changed. And there is also disagreement over the inclusion of unrelated elements in the legislation, such as a provision in the House bill calling for an affordable housing trust fund to be financed by a tax paid by Fannie and Freddie.

Given these factors, Seiberg thinks it's highly unlikely that GSE reform will get the nod this year. And that would mean it's unlikely

that President Bush would agree to temporary increases in the conforming loan limits.

Mandate stricter loan underwriting criteria

Both the House and the Senate have passed legislation that seeks to end lax lending standards.

While some of their provisions differ, both bills would mandate that lenders verify borrowers' income and assets, and make a reasonable determination of a borrower's ability to repay the loan.

They would also prohibit a practice known as "steering" in which a mortgage broker steers customers into higher cost loans even if they qualify for less expensive ones.

And the bills call for greater recourse for borrowers if they do find themselves in an abusive loan. But the provisions would apply to future loans, not the ones that borrowers currently are struggling to pay.

Nevertheless, Seiberg anticipates lawmakers will come to consensus on just how to rein in lenders and brokers - and that President Bush would sign the legislation even if some of the provisions aren't entirely to his liking because of the political pressure to curb abusive lending is too great. \l "TOP" \l "TOP"

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